

CIA/OER/S-06672-74 KUWAITI INVESTMENT INSTITUTIONS
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CENTRAL INTELLIGENCE AGENCY

Washington, D.C. 20505

CIA/OER/S-06672-74

9 December 1974

MEMORANDUM FOR: Dr. Raymond J. Albright
Vice-President, Research and Planning
Export-Import Bank of the United States

SUBJECT : Kuwaiti Investment Institutions and
Policies

1. The attached memorandum is in response to your request for additional information on the foreign investment policies and institutions of Kuwait. We have attempted to emphasize that information which might be of interest to you in selecting projects for possible joint Export-Import Bank - Kuwaiti Government financing. It seems likely that such a joint endeavor has more prospect for success in the case of Kuwait than in the other Middle East oil producers.

2. We will shortly provide you with similar studies for Iran and Saudi Arabia. Unfortunately, there seems to be a good deal less to report than in the Kuwaiti case.

MAURICE C. ERNST
Director
Economic Research

Attachment:
As stated

STATINTL

Distribution: (S-6672)
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STATINTL

KUWAIT'S INVESTMENT INSTITUTIONS AND POLICIES

BACKGROUND

Kuwait's investment institutions are the most sophisticated in the Middle East. Oil exports have generated substantially more funds than could be invested domestically since the early 1960s. A cadre of experienced personnel, and numerous public and quasi-public institutions, have been developed to invest the surplus abroad.

Despite the relative sophistication, however, Kuwait will find it increasingly difficult to adequately manage its growing wealth without outside assistance. Foreign official holdings, which totaled about \$4.5 billion at the end of 1973, will grow to about \$11.2 billion by the end of this year. Similar increases are likely in 1975 and beyond.

Kuwait will continue to rely primarily on indigenous institutions in managing its surplus funds, but foreign technical assistance -- from individual governments, international organization, or private financial groups -- will play a growing role. Kuwaiti officials do not view foreign assistance as an alternative to existing institutions, but as a method of augmenting their capabilities. The Government of Kuwait recently asked the World Bank to provide an advisor to assist Kuwaiti groups investing in less developed countries, and is encouraging a number of US banks to provide management and technical services for Kuwaiti banks.

INVESTMENT INSTITUTIONS

The Ministry of Finance and Oil is the most important of a half dozen institutions which handle the bulk of Kuwait's foreign assets. The Finance Ministry directly manages about 80% of the country's foreign holdings and exerts considerable influence over the other major investment institutions -- the Central Bank, the Kuwait Investment Company (KIC), the Kuwait Foreign Trading Contracting and Investment Company (KFTCIC), the Kuwait International Investment Company (KIIC), and the Kuwait Fund for Arab Economic Development. The Finance Ministry's influence will also

extend to the activities of a number of recently established institutions, the most important of which are Kuwait Overseas Properties and the Kuwait Real Estate Bank. In addition, a score of other private real estate companies, insurance companies, banks, and investment houses handle some government funds on an ad hoc basis.

The foreign holdings of the Ministry of Finance and Oil, and of the Central Bank, consist primarily of bank deposits, government securities, and similar secure and liquid assets that make up Kuwait's international reserves. The investments of the specialized quasi-public institutions -- the KIC, the KFTCIC, the KIIC -- and of the Kuwait Fund, are more diverse consisting largely of trade credits, loans, equities, and real estate. Future Kuwaiti government investment in similar assets -- essentially foreign holdings that do not qualify as reserves -- will probably continue to be channeled through the specialized institutions.

THE INVESTMENT POLICIES OF THE SPECIALIZED INSTITUTIONS

The overall investment goals of the specialized institutions are quite similar, although the composition of their assets differs somewhat because of differences in mission and management. Each of the institutions has been relatively successful in satisfying the basic objective of preserving the value of their holdings, while earning a rate of return consistent with its mission. In recent years, the quasi-public investment institutions have earned about 11% annually on their portfolio.

The specialized institutions are attempting to concentrate their investment in a relatively small number of countries reflecting the Kuwaiti government's geographic-political-religious priorities:

- °First, investment in Arab states.
- °Second, investment in developing African countries, particularly Muslim countries.
- °Third, investment in developing Asian countries, particularly Muslim countries.
- °Fourth, investment in other developing countries.

Investment has similarly been concentrated in a relatively few industries, reflecting the government's industrial priorities:

- °Fertilizer production.
- °Mining activities.
- °Light manufacturing.
- °Refinery operations.
- °Recreational property.

KUWAIT INVESTMENT COMPANY

Established in 1963, this 50% government-owned investment bank specializes in foreign medium and long-term bonds, loans, and equities (see Table 1). The KIC has a current capitalization of about \$35 million and deposits in excess of \$100 million. Its investments are valued at about \$180 million.

TABLE 1

Distribution of KIC Assets by Type
as of 31 Dec 1973

<u>Foreign Holdings</u>	<u>Percent*</u>
Bonds	30
Loans	18
Equities	16
Bank Deposits	14
Real Estate	6
Debentures	5
Other Assets	7
Local Equities	5

*Does not equal 100 because of rounding.

The KIC has recently formulated a new set of specific geographical preferences in investment. These are:

- ° Internal Kuwaiti investment (at present largely foreclosed, but the KIC is seeking authority to invest 25% of its funds in Kuwait).
- ° Investment in the Arab world.
- ° Projects in developing African countries.
- ° Projects in other developing countries.
- ° Investments in developed countries, particularly the United States.

Implementation of these new guidelines will take time. KIC investment will therefore continue -- at least in the short run -- to be concentrated in developed Western economies.

The KIC has no clear industrial preference in its investments. It appears to prefer holdings in the \$10-\$20 million range. The KIC has often demanded an opportunity to obtain an equity position when extending loans to private companies.

THE KUWAIT FOREIGN TRADING CONTRACTING AND INVESTMENT COMPANY

Established in 1965, this 80% government-owned company specializes in short-term loans, debentures, and promissory notes. It has a paid-in capital of about \$100 million and deposits of about \$35 million.

The KFTCIC's policy is to invest almost exclusively in developing countries. First priority is given to Arab states, second to African states. Investments in Asian Muslim countries such as Pakistan and in Southeast Asian countries which are rich in natural resources, such as Indonesia, are generally acceptable. Investments will also be considered in Latin American countries which are rich in natural resources. Investments in developed countries are limited to exceptional profit opportunities.

KFTCIC investments are concentrated in a number of industries. These include recreational property, fertilizer, housing, bauxite, phosphate development, mining, cement plants, and a number of light manufacturing projects. Most holdings are in the \$10-\$20 million range.

KFTCIC officials apparently wish to concentrate their investments in projects in which they can obtain a 10%-20% equity position. They feel this degree of ownership assures that Kuwaiti views are reflected in company policy, but does not tie down Kuwaitis in the actual management process. Obtaining an equity position is not always a prerequisite to investment, however. Recent commitment by the KFTCIC include a number of loans, with which no equity position was associated.

KUWAIT INTERNATIONAL INVESTMENT COMPANY

Established in 1973, this wholly privately-owned investment bank was expected to specialize in investment in the Persian Gulf and other Arab states. It probably will operate, however, in much the same manner as the KIC and the KFTCIC, with return on investment given high priority.

KIIC officials claim the company's investment policies will be more apolitical than the investment policies of the other specialized institutions, even though 90% of the bank's funds are borrowed from the government. The geographic distribution of KIIC investments will clearly be less affected by Kuwaiti government geographic-political-religious priorities. The company, for example, recently made an investment in the Philippines despite official displeasure with the Marcos regime.

Little definite is known about the KIIC's industrial preferences, although interest in recreational property is particularly strong. The bank is flexible as to the size of its investments. When extending loans to private enterprises, it generally prefers to obtain an equity position.

THE KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

Established in 1961, this wholly government-owned fund is the oldest and most sophisticated aid institution in the Middle East. Since its founding, the Fund has distributed about \$500 million in loans and has outstanding commitments for an additional \$200 million. Originally established to manage the growing share of Kuwaiti foreign holdings directly earmarked for Arab development, its geographic area of competence was broadened to include all developing countries when its statutory capital was raised from \$676 million to \$3,380 million in early June. At present, the Fund has considerable unused lending capacity. Since it can, under its articles of incorporation, borrow up to twice its capital plus reserves, the Fund's lending potential now exceeds \$10 billion.

The Kuwait Fund operates much like the International Bank for Reconstruction and Development. Long-term loans are offered at concessionary interest rates -- generally between 2% and 4% -- on an individual project basis. Loans are generally limited to no more than half of a project's total financing and no more than its total foreign exchange requirement.

All of the Kuwait Fund's investments are in the Arab world reflecting the Fund's previous orientation (see Tables 2 and 3). A number of projects, however, are now being considered in non-Arab countries in Africa, and it appears likely funds will soon be provided for a project in Senegal. Other countries likely to receive Kuwait Fund loans include Afghanistan, Bangladesh, Ghana, Kenya, Mali, Sri Lanka, and Zaire.

Kuwait Fund investments are concentrated in infrastructure projects associated with the early stages of economic development; transport and storage, agriculture, and electric power. Many of the loans are in the \$20-\$30 million range. The Fund has generally not sought to obtain equity positions.

TABLE 2

KUWAIT FUND
DISTRIBUTION OF LOANS
1 AUGUST 1974

(million US \$)

	Transport & Storage	Agricultural Development	Electrical Development	Industry	Other	Total	Percent
Egypt	78.75	-----	-----	25.00	-----	103.75	21.0
Sudan	23.66	49.84	-----	5.75	-----	78.25	15.8
Tunisia	3.04	17.58	28.40	9.63	-----	58.65	11.9
Syria	23.66	-----	18.00	6.76	-----	48.42	9.8
Jordan	-----	21.97	10.14	11.76	3.38	47.25	9.6
Morocco	-----	33.97	-----	2.91	-----	36.88	7.4
Algeria	33.80	-----	-----	-----	-----	33.80	6.8
Bahrain	1.69	-----	24.84	5.07	-----	31.60	6.4
Iraq	-----	-----	10.14	12.84	-----	22.98	4.6
Yemen (Sanda)	.96	15.40	-----	6.42	-----	22.78	4.6
Lebanon	3.38	-----	6.22	-----	-----	9.60	1.9
Yemen (Aden)	-----	1.12	-----	-----	-----	1.12	.2
Total	168.94	138.88	97.74	86.14	3.38	495.08	
Percent	34.1	28.1	19.7	17.4	.7		

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TABLE 3

KUWAIT FUND LOANS, BY COUNTRY AND PROJECT
1 AUGUST 1974

Jordan

Yarmouk Valley Project
Phosphate Mines
Phosphate Development
Jerusalem Electricity
Jerusalem Hotel
Jordan Hotel
Zarqa River Project
Zarqa Power Station
Industrial Development Bank
of Jordan

Bahrain

Power and Water Plants
Aluminum Smelter
Flour Mill
Causeway and Bridge

Algeria

Oil Pipeline - Phase I
Oil Pipeline -- Phase II & III

Sudan

Sudan Railways
Sugar Plant
Agricultural Development
Mechanised Dry Farming
Sennar Sugar Project
Rahad Irrigation Project

Iraq

Samarra Hydro-Electric Project
Samawah/Um Qasr Cement Project

Morocco

Tessaout Agricultural Project
Tadla Agricultural Project
Sucrafor Project

Yemen (Aden)

Agricultural Survey & Wadi
Abyan Development Studies
Abyan Delta Agricultural
Project

Yemen (Sanaa)

Wadi Zabid Project
Salif Salt Mine
Salif Salt Mine (2)
Highway Project

Tunisia

La Goulette Electricity - Phase I
La Goulette Electricity - Phase II
Medjerda Valley (1)
Medjerda Valley (2)
Gas Pipeline
Fishing Port Development

Syria

Grain Silos
Thermal Power Plant
Homes Oil Refinery

Lebanon

Joun Electricity
Grain Silos

Egypt

Suez Canal Expansion
Cargo Ships Construction
Suez Canal
Reopening
Talkha Fertilizer Plant

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